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TOP SECRET

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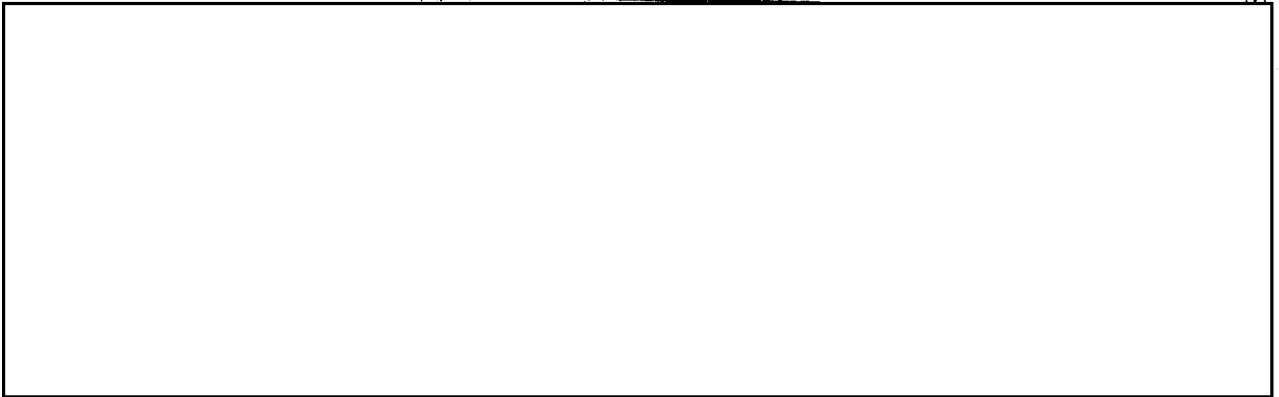
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GENERAL

1. Draft treaty for Japan poses dilemma for India: India Japan

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Comment: The US-proposed treaty for Japan poses a dilemma for India: As champion of a free Asia, India favors an early restoration of Japan's independence; it is faced, however, with Soviet determination not to participate in a Japanese peace settlement on US terms and with US determination not to invite Communist China to participate. As long ago as April 1950, Prime Minister Nehru told US Ambassador Jessup that India was prepared to negotiate a Japanese treaty without the Communist nations once they had refused to participate. Nehru's obsession with "Asianism" and Indian anti-Westernism, however, will be stumbling blocks to Indian cooperation in approving a peace treaty for Japan.

FAR EAST Korea2. US official comments on South Korean economic situation:

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US Ambassador Muccio, commenting on the Republic of Korea Government's increasing awareness of the serious inflation and its efforts to combat it, states that the Finance Ministry's optimistic views on the size of the deficit are not realistic

and that the best that can be hoped for is a retardation of the present inflationary rate. The Ambassador singles out the heavy rate of South Korean currency expenditure by the UN Forces (a total of Won 137 billion by 21 April) as the most critical factor in the inflation, and adds that the withdrawal of currency from circulation by governmental action or sale of commodities and relief goods can in no way offset this expenditure. The Ambassador concludes pessimistically that the "delay in activating the United Nations Korean Relief Agency and the premature disestablishment of ECA leaves a void in the Korean economy which cannot be and is not being filled."

Comment: As of 21 April, currency in circulation in the Republic of Korea had increased to Won 375 billion, 150 per cent over the December 1950 level. Although becoming increasingly critical, inflation has not yet reached the stage where the population has no faith in the currency or the government behind it.

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3. Communist China's railroad to Indochina scheduled for early completion:

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[redacted] the last link of the railroad now being built by the Chinese Communists to the Indochina border is scheduled for completion the end of April. [redacted] arms and ammunition are already being moved along the railroad as far as its present terminal point at Nanning (about 100 miles from the border) and carried from there to Ho Chi Minh's forces in Indochina by other means of transport.

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Comment: Completion of the final section of this rail line will link Indochina with the Communist rail net extending from South China through Manchuria into the USSR and will provide a major transport artery for supplying the Communist forces in Indochina. Early completion of this section is expected, since most of the work on the roadbed has already been finished. The Chinese Communists are now engaged in laying the ties and rails.

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4. Hong Kong firms offer large shipments of trucks and tires to Communist China:

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Comment: The US Embassy in India reported earlier that substantial quantities of trucks and auto parts from World War II surpluses are available in India for possible export to Communist China. Representatives of Hong Kong firms, acting for the Chinese Communists, are known to be in Calcutta in order to inspect and purchase some of this equipment. The Embassy has expressed the belief that US efforts to halt these exports may require a high-level approach by the State Department to the Government of India.

5. Government of India official hopes "inept" Trygve Lie will not visit India:

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Trygve Lie, Secretary General of the United Nations, would not visit India in the near future as he would serve "no good purpose" by doing so. Bajpai further said that Lie had been "singularly inept" during his visits to other countries and that the present was no time for a "bull in the Indian china shop." The Ambassador comments that, while Bajpai's remarks may not precisely reflect the attitude of the Indian Government, he probably would not have made them unless he thought they approximated the views of Prime Minister Nehru.

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Comment: The US Ambassador has privately commented that India no longer considers the UN an effective instrument for promoting collective security. [redacted]

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[redacted] Bajpai's statements may be an additional indication of India's pessimism about the efficacy of the UN. It should not be assumed, however, that Indian disappointment with the UN necessarily means that India will withdraw therefrom in the near future.

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EASTERN EUROPE

6. US Embassy may be linked to Clementis' case as a result of Oatis' arrest:

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[redacted] According to a report allegedly originating with an official in the Czechoslovak Ministry of Information, Associated Press Bureau Chief Oatis was arrested because of his activities, rather than those of the news agency itself. Another source has informed the US Embassy in Prague that the Associated Press office may have been used, perhaps without Oatis' knowledge, as a rendezvous for subversive groups with which some of the Czechoslovak Associated Press employees may have been connected. During the four weeks prior to Oatis' arrest, three of these employees were apprehended by Czechoslovak authorities and a fourth disappeared the same day Oatis did. The US Ambassador in Prague suggests that the Czechoslovak Government might use such reportedly subversive activity in an attempt to link the US Embassy to the alleged espionage activities of former Foreign Minister Clementis in a forthcoming trial.

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WESTERN EUROPE

9. French Communists will not support joint tickets in elections:

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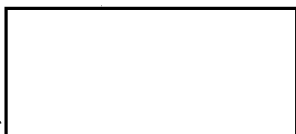


Etienne Fajon, the French Communist Party leader responsible for propaganda, and parliamentary and international questions, has told the Party's Central Committee that in no circumstances will the Communists present candidates in conjunction with another party in the forthcoming elections, including even extreme left-wing sympathizers.

Comment: This declaration is the first official stand taken by the French Communist Party regarding the approaching general elections. Unconfirmed reports in recent months indicate that the French Communist Party will make as strong a bid as possible in the coming electoral campaign, avoiding violent tactics. Reports from other sources indicate that the Party does not anticipate any increase in the number of its seats in the National Assembly.

10. French election in June "still possible":

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Despite the National Assembly's failure on 27 April by three votes to pass the electoral reform bill over the Council of the Republic's veto, the US Embassy in Paris estimates that elections in June "appear still possible." This estimate is based on the assumption that the Assembly will agree to reconsider the bill next week, as recommended by a committee following the adverse vote. Meanwhile, President Auriol has refused to accept Premier Queuille's resignation and the Cabinet has decided to try again.

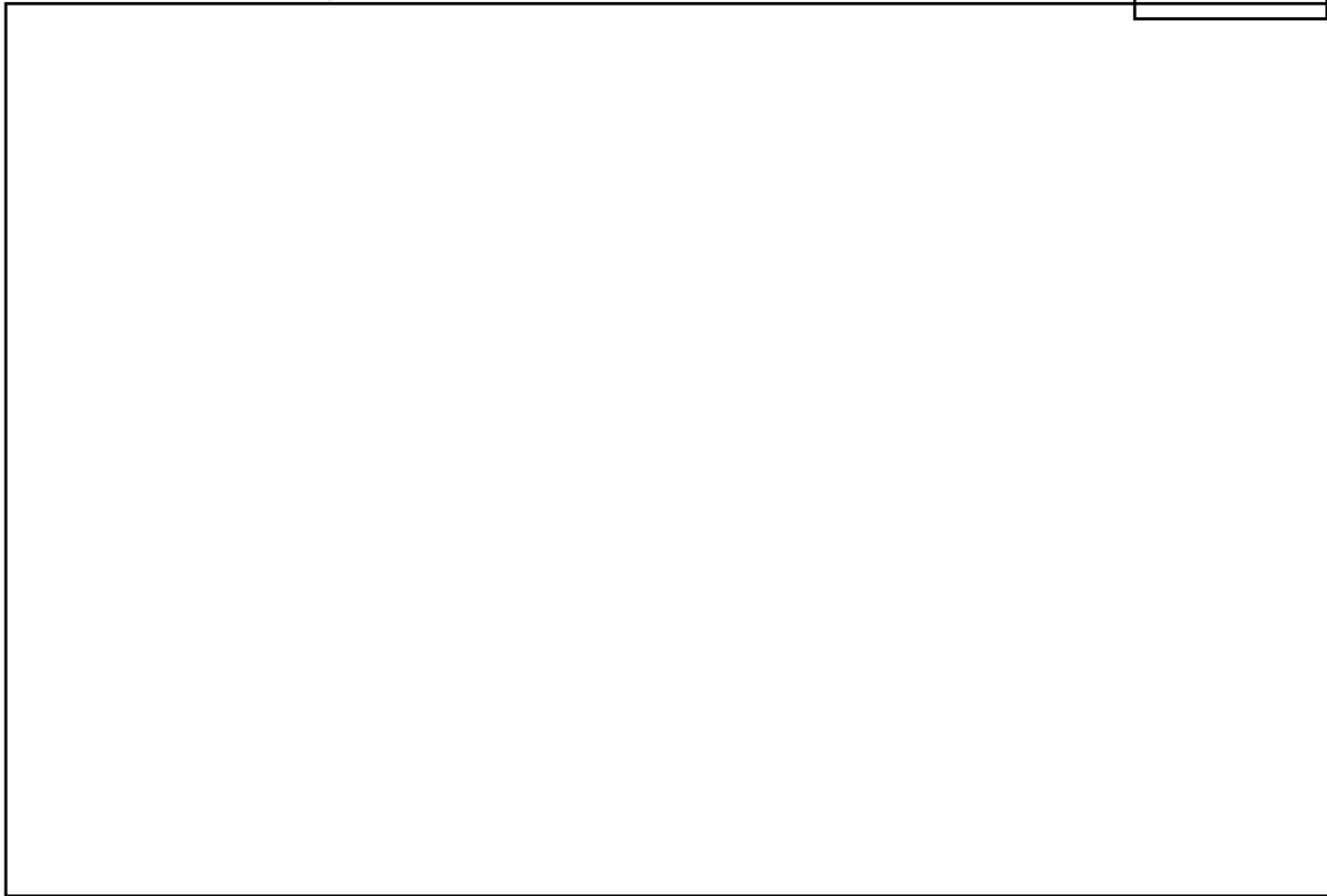
Comment: Approval of an electoral reform bill that would reduce Communist representation is necessary before Queuille can carry out his program, which consists mainly of stopgap economic measures pending the June elections. Partly because most

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deputies realize that the present assembly is incapable of taking long-term measures to stem the mounting inflation threatening French rearmament efforts, the government has a good chance of mustering the necessary additional votes for the electoral bill.

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12. West German Chancellor to delay extension of labor participation in management:

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The West German Government considers the recent legislation granting co-determination (labor participation in management) in the coal-steel field a "special case" rather than a precedent. Chancellor Adenauer is therefore anxious to resist pressure for early passage of legislation extending co-determination either to all of industry or to individual sectors of industry. Federal policy will eventually entail support of a general all-industry co-determination bill

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granting far less voice to labor than does the coal-steel law, in an attempt to maintain coalition solidarity at the expense of rejecting some labor demands. But Adenauer will probably delay this action, partly in order to secure trade union support for the Schuman Plan.

Comment: Adenauer, in personally conducting last-minute negotiations on coal-steel co-determination, made many concessions to labor that have been strongly criticized by members of his own coalition. He is likely to avoid another showdown as long as possible.

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